

JBIC Signs ODA Loan Agreement with Office National de l'Electricité (ONE) of Morocco -To Support Rural Electrification in Poverty-stricken Region-

1. Japan Bank for International Cooperation (JBIC; Governor: Kyosuke Shinozawa) will sign today an ODA loan totaling 7,350 million yen with Office National de l'Electricité (ONE) in the Kingdom of Morocco for Rural Electrification Project (II).
2. This loan will finance civil works and services to develop power distribution line networks for 88,000 households in rural villages of seven provinces that have a high incidence of poverty -- Chefchaouen, Taounate, Al Haouz, Azilal, Tiznit, Ouarzazate and Zagora
3. While Morocco is making active efforts toward democratization and economic liberalization, it is still beset by problems of regional economic disparities. In its Basic Strategy for Japan's ODA Loans (established in April 1, 2002) JBIC identified infrastructure development for rural electrification, water supplies, etc. which are highly effective in reducing poverty, as priority areas of its development assistance to Morocco. This loan has significance as it aims at well-balanced development for the moderate Moslem country whose stability is an important factor in the regional stability of the Middle East and North Africa. Japan and Morocco have a close relationship in trade, mainly marine products, and strive to keep their friendly relationship.
4. The Moroccan government has placed reduction of regional disparities through rural development high on the agenda of its national policy. It drew up "Programme d'Electrification Rurale Global (PERG)" in 1995 and has been undertaking rural electrification projects since 1996. Provinces having a high incidence of poverty were selected for this project based on the poverty criteria the government defined for individual provinces. The rural electrification project is expected to raise living standards as well as bolster the economy, thereby alleviating regional disparities between urban and rural areas and reducing poverty.

(See Appendix for details.)

1. Loan Amount and Terms

Project Name	Loan Amount (Mil. Yen)	Interest Rate (% per annum)	Repayment Period /Grace Period (Year)	Tying Status
Rural Electrification Project (II)	7,350	2.2	30/10	General Untied

2. Political and Economic Conditions in the Kingdom of Morocco

(1) Political Situation

Since King Mohamed VI acceded to the throne after the demise of King Hassan II in July 1999 that ended a 38-year long reign, he has promoted moderate domestic and foreign policies. The present left-of-center Youssoufi government, which was formed in February 1998, has governed the country with a focus on social policy, and the country is enjoying political stability. Parliamentary elections are scheduled for this September.

(2) Economic conditions

Morocco experienced difficulties in debt repayment as a result of rapid expansion in fiscal expenditures and mounting external debt since the 1970s. From the second half of the 1980s, it undertook structural adjustment, which improved the macroeconomic balance. However, since agriculture makes up a large proportion of GDP (about 15% in 2000), the economy is easily affected by weather, vulnerable to large fluctuations in growth rates (-2.2% in FY1997; 6.8% in FY1998; -0.7% in FY1999; and 0.3% (estimate) in FY2000). The manufacturing industry accounts for slightly more than 20% of GDP, of which textiles have a relatively large share. Proximity to Europe and abundant tourist attractions have made tourism one of the country's important industries, accounting for about 9% of GDP in 2000. With improved infrastructure such as hotels and roads, revenues from tourism have been increasing.

The balance of payments has a basic structure where external debt service is offset by tourism revenues and remittances from overseas workers. Trade deficits have been on the rise due to growing imports which resulted from diversified industry and economic growth. The current account deficit increased by 1.7% of GDP in 2000, as exports of iron ore decreased.

The Moroccan government has been steadily repaying its external debt since the rescheduling in the Paris Club in 1992. In recent years, a conservative external borrowing policy and debt-equity swaps have led to reduction in the external debt. The outstanding external debt relative to GDP declined from 68.7% at the end of FY 1995 to 55.3% at the end of FY 2000. The debt-service ratio (DSR) thus fell from 52.2% to 27.5% during this period.

3. Project Outline

Rural Electrification Project (II)

(1) Background and Necessity of the Project

The government of Morocco is undertaking an "Economic and Social Development Plan (2000-2004)", which prioritizes the following issues as urgent challenges to be tackled: (1) Correction of the regional disparities by rural development; (2) Creation of employment by promoting investments and diversifying the industry; and (3) Strengthening policy for poverty reduction, human resources development and bridging social gaps. Placing a particular emphasis on correction of regional disparities, the government laid down a national plan pertaining to regional electrification, rural water supply and construction and rehabilitation of rural roads, and has proceeded with this rural development. Aiming to increase the rural electrification rate to 90% by 2010, the government of Morocco drew up "Programme d'Electrification Rurale Global (PERG)" in 1995, where the period was divided into five phases and rural electrification projects have been implemented in one region after another since 1996. (The target of the plan was changed later to achieve 80% rural electrification by 2006.) This is a national plan supported by several donors: Agence Française de Développement (AFD) has already signed a loan agreement for the third phase, and the Islamic Development Bank (IsDB) is scheduled to follow suit. JBIC also provided an ODA loan for the Rural Electrification Project (L/A totaling 6,027 million yen signed in 1998) to finance the second phase of the Plan. In Morocco, where the majority of the population live in poverty and in rural areas, implementation of this project is rated high in priority and urgency, given the significance placed in poverty reduction and the elimination of the regional gap by improving the living standards of rural residents.

(2) Purpose and Outline of the Project

This project aims to develop rural electrification in rural areas in the seven designated prefectures under the third phase of PERG. It will serve to reduce poverty and correct the regional gap through electrifying the rural areas and upgrading the living standard. The executing agency is Office National de l'Electricité (ONE). Address: 65, Rue Othman Ben Affan 20 000 Casablanca, Royaume du Maroc; Tel: 212-22-66-84-71; Fax: 212-22-66-83-90.